

Amendments in the structure and content of the AFS and amendments in the CFRS for the reporting period from 1 January 2020 and 1 January 2021

Based on Article 19, paragraph 5 of the Accounting Act (Official Gazette 78/15, 120/16, 116/18, 42/20 and 47/20), the Ministry of Finance issued Bylaw on amendments to the Bylaw on the structure and content of annual financial statements. The Bylaw was published on 23 December 2020 in the Official Gazette, no. 144/2020 with effect from 1 January 2020 and 1 January 2021.

Below is a brief overview of the amendments to the Bylaw on the structure and content of annual financial statements

Additional amendments to financial statements and consolidated financial statements are prescribed:

- ▶ For the reporting periods from 1 January 2020, the amendments are as follows:
 - ▶ rights to real estate and other similar rights are disclosed in the balance sheet tangible assets position under land or buildings
 - ▶ notes are disclosed in order in which the entries are disclosed in the Balance Sheet and Profit and Loss Statement
 - ▶ if an asset or a liability relates to more than one position in the balance sheet their relationship has to be reported in notes to financial statements.
- ▶ For the reporting periods from 1 January 2021 the amendments are as follows: mijenjaju se sljedeće stavke u Bilanci u GFI-POD obrascu:
 - ▶ the following items in the Balance Sheet in the GFI-POD form are changed:
 - ▶ the name of the line "V Fair value reserves" is changed to "V Fair value reserves and other", additionally line 4. "Other fair value reserves" and line 5. "Foreign exchange differences from the translation of foreign operations (consolidation)" are added

Based on Article 18, paragraph 1, item 1 of the Accounting Act (Official Gazette 78/15, 120/16, 116/18, 42/20 and 47/20), the Financial Reporting Standards Committee issued a Decision on amendments to the Decision on publishing Croatian financial reporting standards. The Decision was published on 25 September 2020 in the Official Gazette, no. 105/2020 with the effect from 1 January 2021 and with the purpose of final harmonization with the EU directives related to financial reporting.

Croatian financial reporting standards (CFRS) are the basis for preparation and publishing financial statements of micro, small and medium-sized enterprises in the Republic of Croatia.

Below is a brief overview of the changes which include additional disclosures and exemptions for micro, small and medium-sized enterprises.

Additional disclosures for small and micro entrepreneurs are prescribed as of 1 January 2021

- ▶ entity registration number, entity identification number and if it is applicable that the entrepreneur is in liquidation, bankruptcy or shortened termination procedure without liquidation
- ▶ average number of employees



- ▶ for transactions with related parties the following needs to be disclosed:
 - ▶ transactions with related parties and amounts, the nature of the relationship with related parties and other transaction information necessary to understand the financial position of the entity
 - ▶ information about individual transactions may be aggregated according to their nature, except when separate information is required to understand the effects of transactions with related parties on the financial position of the entity
 - ▶ small and micro enterprises should only disclose transactions with owners with a participating interest, enterprises in which the entrepreneur has a participating interest and transactions with members of administrative, management or supervisory bodies
- ▶ the proposed distribution of profits or the proposed treatment of loss, or, where this is applicable, the distribution of profits or the treatment of loss
- ▶ the name, headquarters and legal form of any entrepreneur in which the entrepreneur has unlimited liability.
- ▶ the name and headquarters of any entrepreneur in which the entrepreneur, either alone or through a person acting on its own behalf, but on behalf of the entrepreneur, holds an interest in the capital, expressing the amount of capital held, the amount of total capital and reserves, and the profit or loss of the last fiscal year
 - ▶ information regarding capital and reserves and profits or losses may be omitted where the entrepreneur does not disclose its balance sheet and is not controlled by another entrepreneur
- ▶ for the capitalization of salary costs - the allocation of the total cost of employees during the year into the amount directly charged to the period costs and the amount capitalized into the value of the assets during the period, broken down into net amount, taxes and contributions from and on salaries

Additional disclosures for medium-sized entrepreneurs are prescribed as of 1 January 2021, amongst others:

- ▶ any additional disclosures applicable to small and micro entrepreneurs as previously stated
- ▶ compensation to members of administrative and supervisory bodies
 - ▶ additionally, it applies to all liabilities of former members indicating the total amount for each category
 - ▶ does not apply if their publication could determine the financial status of a particular member of such a body
- ▶ average number of employees, broken down by category and staff costs broken down into net salaries, tax and contribution costs from salaries and contributions to salaries

Exemption of disclosures for small and micro entrepreneurs are prescribed as of 1 January 2021, amongst others:

CFRS 2 Consolidated financial statements

- ▶ exemption from all disclosures if they are not subject to consolidation, except for the publication of the name and headquarters of the entrepreneur compiling the consolidated financial statement of the smallest group of entrepreneurs in which the entrepreneur participates as a subsidiary and which is also included in the group of entrepreneurs of the largest group of entrepreneurs in which the entrepreneur participates as a subsidiary

CFRS 3 Accounting policies, changes in accounting estimates and errors:

- ▶ exemption from publication of changes in accounting policies (as a result of a change in standards or voluntary change), changes in accounting estimates and errors of the previous periods

CFRS 4 Events after balance sheet date

- ▶ it is only necessary to disclose the nature and financial impact of significant events that occurred after the balance sheet date and are not reflected in the income statement or balance sheet

All fixed asset related disclosures are exempt from all disclosures requiring **CFRS 5** Long term intangible assets to **CFRS 8** Long term tangible assets held for sale and business termination except:

- ▶ adjustments of the opening balances and balances at the end of the year, and movements throughout the year, amounts and movements in value adjustments, amounts of capitalized interest
- ▶ if the assets are measured at fair value: significant assumptions and techniques, changes in P&L, changes in fair value reserves and fair value reserve movement table

CFRS 9 Financial assets - exemption from all disclosures except:

- ▶ When asset is measured by fair value disclosure of significant assumptions and techniques, changes in the P&L, information on derivative financial instruments and a table of fair value reserve developments

CFRS 10 Inventories, **CFRS 11** Receivables, **CFRS** Accruals

- ▶ exemption from all disclosures

CFRS 12 Capital

- ▶ Exemption from all disclosures other than the movement of the revaluation reserve and the fair value reserve

CFRS 13 Liabilities

- ▶ Exemption from all disclosures other than restricting disclosures to related parties

CFRS 15 Revenues and **CFRS 16** Expenses

- ▶ Exemption from previously requested disclosures; only the amount and nature of significant items of revenue or expenses of extraordinary size and nature

Exemption from publications for medium-sized entrepreneurs are prescribed as of 1 January 2021, amongst others:

- ▶ medium-sized entrepreneurs that are parent companies are not obliged to disclose the name and headquarters of each entrepreneur in which the entrepreneur, either alone or through a person acting on its own behalf but at the expense of the entrepreneur, holds an interest in the capital if:
 - ▶ is an entrepreneur in which the parent company has a participating interest, included in consolidated financial statements prepared by that parent company or in the consolidated financial statements of a larger group of entrepreneurs
 - ▶ where the parent company expresses a participating interest using the equity method
- ▶ any omission must be disclosed in the notes to the financial statements



Additional changes are prescribed as of 1 January 2021:

CFRS 2 Consolidated Financial Statements

- ▶ clarification that the impairment of goodwill recognized cannot be subsequently reversed
 - ▶ in this regard, value adjustments of goodwill acquired in a business cannot be subsequently reversed
- ▶ modified to amortize the goodwill acquired in business combinations over a useful lifetime
 - ▶ exceptionally, if the useful lifetime of goodwill cannot be measured reliably the amortization period is five years
- ▶ modified so that the parent company in the Republic of Croatia, including an entrepreneur of public interest, is not obliged to prepare consolidated annual financial statements if the following conditions are met (among others):
 - ▶ the parent company is controlled by the parent company subject to the laws of a Member State (it is no longer just 'other' Member States)
 - ▶ the parent company, together with all its subsidiaries, except those entities that do not enter into consolidation according to the regulations, will be consolidated in the consolidated financial statements of another parent company subject to the laws of a Member State (it is no longer just 'other' Member State).

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2021 Ernst & Young Advisory LLC
All Rights Reserved.

Ernst & Young Advisory LLC
Radnička cesta 50, 10 000 Zagreb, Croatia
Tel: + 385 1 5800 800 | Fax: +385 1 5800 888
ey.com/hr_hr